

Multiple Choice Answers

Q2: A

Multiple Choice Answers

Q9: B

2(a)	Identify a difference between economic goods and free goods. Economic goods use up resources / need factors of production to produce them (1) free goods do not (1) Economic goods are scarce / in limited supply (1) free goods are in unlimited supply (1). Economic goods have an opportunity cost (1) free goods do not (1).
2(b)	Explain how opportunity cost will influence a government's decision on whether to spend tax revenue on a large infrastructure project. Logical explanation which might include: Opportunity cost is the (next) best alternative (1) forgone / given up (1). Tax revenue is limited (1) if a government spends some of it on an infrastructure project, it will not be able to spend on something else / could use the money to spend on something else (1) an example (1). Governments have to decide on their priorities / consider which form of spending will provide the greatest benefit (1) reason why spending on infrastructure may be the best option / may not be the best option (1).

2(c)

Analyse the influences on whether supply of a product is elastic or inelastic.

Coherent analysis which might include:

Elasticity of supply is a measure of the responsiveness of supply to a change in price / formula / elastic supply is when p_{es} is > 1 / inelastic supply is when $p_{es} < 1$ (1).

Elastic supply occurs when supply changes by a greater percentage than the change in price / inelastic supply is when supply changes by a smaller percentage than the change in price (1).

Whether the product can be stored / non-perishable (1) if it can be, it will be elastic (1) able to adjust supply quickly to changes in price (1) as if price rises, goods can be taken out of storage (1).

Whether the production time is short (1) if so, output can be increased quickly to take advantage of higher prices (1).

Cost of altering supply (1) if it is costly to alter the supply, supply is likely to be inelastic (1).

Whether there are unemployed resources / level of capacity (1) if there are, supply can be adjusted by taking on more resources (1).

Whether resources / factors of production are mobile (1) if they can change use / location (1).

Time (1) supply usually becomes more elastic, the longer the time period (1).

Level of competition (1) supply is likely to be more elastic in a competitive than in a monopoly market (1).

2(d)

Discuss whether or not a government should ban the burning of wood to heat homes.

In assessing each answer, use the table opposite.

Why it should:

- reduce external costs / pollution
- correct market failure / information failure
- improve people's health
- protect forests
- replace wood with a more environmentally-friendly fuel
- wood could be used for other purposes

Why it should not:

- wood may be bought mainly by the poor, increase poverty
- other sources of fuel may be more expensive
- may be difficult to enforce
- may cause unemployment
- may be better to tax wood as a fuel, could use revenue to subsidise more environmentally-friendly sources of fuel
- some alternative fuels may be more polluting.

2(b)